ENROLLED AGENT PRACTICE EXAMS

ERRATA SHEET

2025/26 TESTING CYCLE

SKILLPREP BOOKS

Enrolled Agent Practice Exams - ERRATA SHEET

This document contains corrections and clarifications for *Enrolled Agent Practice Exams 2025-2026* by *SkillPrep Books* for editions published **before April, 2025.**

Some questions have been corrected, while others have been revised to enhance clarity.
Please use this information to update the content and ensure you have the most accurate version possible.

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PART 1 - PRACTICE EXAM #1

QUESTION 6

6. Which of these can be claimed as a credit on an estate tax return?

A. Charitable contributions
B. Credit for foreign death taxes paid
C. State death taxes paid
D. Amount paid as estimated tax

ANSWER: B. Credit for foreign death taxes paid
The federal estate tax calculated on Form 706 can be offset by certain tax credits. Allowable credits include the Unified Credit (applicable credit amount), the credit for tax on prior transfers, and the credit for foreign death taxes paid (§2014) on property included in the U.S. gross estate. Charitable contributions (A) and State death taxes paid (C) are generally claimed as *deductions* that reduce the taxable estate, not as credits against the tax itself under current law. The amount paid as estimated tax (D) represents payments made towards the tax liability, not a credit used in the tax computation. Therefore, among the options presented, the credit for foreign death taxes paid is a valid credit against the federal estate tax.
Topic: Estate Tax (Credits vs. Deductions)

QUESTION 11

11. Nancy and Neil, who have four children aged 6, 10, 14, and 23, support all of them. Their eldest is a full-time student earning $5,000 annually. If they file jointly, how many dependents are they allowed to claim?

A. 1
B. 2
C. 3
D. 4

ANSWER: D. 4
Children aged 6, 10, and 14: These children almost certainly meet the requirements to be qualifying children.
Child aged 23:
- Qualifying Child: Because the child is under 24, and a student, he meets the age test.
- Qualifying Relative: Because his income is $5,000, he does meet the gross income test for a qualifying relative (less than $5,050 for 2024).
Since all four children can be claimed, the correct answer is D.
Topic: Dependents - Qualifying Child/Relative Tests

QUESTION 13

13. Michael Brown, who works on an offshore oil rig in international waters, spent 28 days on and 28 days off during his schedule, returning to the U.S. in his off periods. He does not maintain a tax home outside of the United States. What part of his income can he exclude under the Foreign Earned Income Exclusion for his 2024 tax return?

A. $0
B. $28,200
C. $56,400
D. $112,000

ANSWER: A. $0
Since Michael spends significant time in the U.S. and does not meet either the physical presence test (at least 330 full days in a foreign country during a 12-month period) or the bona fide residence test (because his tax home is not in a foreign country) due to his work and residence pattern, he likely cannot claim the Foreign Earned Income Exclusion.
Topic: Foreign Earned Income Exclusion

QUESTION 14

14. Lisa, who is single, has an unrelated 7-year-old living with her since June. The child was not placed with her by an authorized placement agency, she is not the child's foster parent, and she is pursuing a private adoption. What is her correct filing status?

A. Lisa can file as head of household.
B. Lisa can claim a credit for qualified adoption expenses in the current year, even if the adoption is not final.
C. Lisa can claim the child as her dependent on her return.
D. Lisa should file as a single taxpayer.

ANSWER: **D. Lisa should file as a single taxpayer.**
Since the adoption has not been finalized and the child was not placed by an authorized agency, Lisa cannot claim the child as a dependent nor file as head of household. Adoption expenses are also not creditable until the adoption is finalized.
Topic: Filing Status and Adoption

QUESTION 16

ANSWER: D. $133,300
For 2024, the AMT exemption amounts are:
Single/Head of Household: $85,700, Married Filing Jointly/Qualifying Surviving Spouse: $133,300
Married Filing Separately: $66,650
Phaseout thresholds:
Single/Head of Household: $609,350, Married Filing Jointly/Qualifying Surviving Spouse: $1,218,700, Married Filing Separately: $609,350
Eduardo is married filing jointly, so his base exemption is $133,300. Because his AMTI ($271,000) is well below the phaseout threshold ($1,218,700), he does *not* need to reduce his exemption. He can subtract the full $133,300.
Topic: Alternative Minimum Tax (AMT) Exemption

QUESTION 24

24. Daniel is employed by Z-Tech Corp. In calendar year 2024, Z-Tech Corp pays Daniel wages of $240,000. Daniel is married and files a joint tax return with his wife, Samantha. Ignoring any other income or deductions, what is the minimum amount of Additional Medicare Tax that Z-Tech Corp. is legally required to withhold from Daniel's 2024 wages?

A. $0
B. $360
C. $720
D. An amount dependent on Samantha's income

ANSWER: B. $360
Employers are required to withhold Additional Medicare Tax (0.9%) on any wages they pay to an employee that exceed $200,000 in a calendar year. This withholding requirement is based solely on the individual employee's wages, and it is independent of the employee's filing status, spouse's income, or any other factors. Daniel's wages exceed $200,000 by $40,000 ($240,000 - $200,000). Therefore, Z-Tech Corp. must withhold 0.9% of $40,000, which is $360 (0.009 * $40,000). The question specifically asks for the minimum amount legally required to be withheld, making $360 the only correct answer.
Topic: Additional Medicare Tax Withholding

QUESTION 27

27. Which of the following items from last year's tax return is typically unnecessary for completing this year's return?

A. State income tax refund
B. Alternative Minimum Tax (AMT) carryforward credit
C. Total amount of itemized deductions claimed on the prior year's return
D. Capital gain or loss carryover

ANSWER: C. Total amount of itemized deductions claimed on the prior year's return
Items like prior year State income tax refund details (A), AMT carryforward credits (B), and Capital gain or loss carryovers (D) are typically necessary for current year tax calculations if those situations apply, as they directly impact taxable income or credits.
However, the 'Total amount of itemized deductions claimed on the prior year's return' (C) is generally not a figure directly used in the current year's tax computation. While knowing if itemization occurred in the prior year can be relevant (e.g., for state refund taxability), the specific prior year total itself isn't carried over or directly used to calculate current year deductions or tax liability. Current year itemization decisions are based on current year expenses and the current year standard deduction.
Topic: Tax Return Preparation

QUESTION 28

28. Sarah purchased 100 shares of ABC stock on a Tuesday. According to IRS rules for determining the holding period of this stock, on what day does Sarah's holding period begin?

A. The day Sarah purchased the stock.
B. The day before Sarah purchased the stock.
C. The day after Sarah purchased the stock.
D. Two business days after Sarah purchased the stock.

ANSWER 28 - C. The day after Sarah purchased the stock.
IRS Publication 551 clearly states that the holding period for a purchased asset begins on the day *after* the asset was acquired. This is a fundamental rule for determining whether a capital gain or loss is short-term or long-term.
Topic: Holding Period

QUESTION 29

29. In 2024, Richard Peterson files a joint tax return with his wife, Sarah. They provide all of the financial support for the following individuals:
Sarah's uncle, who lived in a separate residence for the entire year.
Sarah's 15 year-old cousin, who lived with Richard and Sarah for five months, then with his parents.
Neither Sarah's uncle nor her cousin had any income. Who, besides Sarah, can Richard claim as a dependent on their 2024 joint tax return?

A. Sarah's uncle and Sarah's cousin.
B. Only Sarah's uncle.
C. Only Sarah's cousin.
D. Neither Sarah's uncle nor Sarah's cousin.

ANSWER: B. Only Sarah's uncle.
Evaluate dependency for each:
Uncle: Qualifies as a Qualifying Relative (QR). He meets the relationship, gross income (no income, < $5,050 limit for 2024), and support tests. An uncle does not need to live with the taxpayer.
Cousin (15): Does not qualify.
- Not a Qualifying Child (QC) because he lived with them only 5 months (fails >6 month residency test).
-Not a Qualifying Relative (QR) because, as a cousin who is not a QC, he would need to live with the taxpayer for the entire year to meet the member of household test for a QR. Five months is insufficient.
Conclusion: Only Sarah's uncle qualifies as a dependent.
Topic: Dependents (Qualifying Relative Tests - Residency/Relationship)

QUESTION 35

35. Marcus is a degree candidate at Georgia State University. In the fall semester of 2024, he received a $3,100 scholarship specifically designated for tuition and required course materials. He used the entire scholarship to cover $2,500 for tuition and $600 for required textbooks. How much of the scholarship does Marcus report as taxable income on his 2024 tax return?

A. $0
B. $600
C. $2,500
D. $3,100

ANSWER: A. $0
Scholarships used for qualified education expenses at an eligible educational institution are tax-free. Qualified expenses include tuition and fees required for enrollment or attendance, and books, supplies, and equipment required for courses. Since the scholarship was specifically designated for tuition and required course materials, and Marcus used the entire amount for those purposes, none of the scholarship is taxable.
Topic: Taxable Scholarships

QUESTION 42

42. Alex, age 63 and single, earned wages and several types of income this year. He has wages of $12,000, interest income of $4,000, dividends of $3,000, municipal bond interest of $2,000, state unemployment compensation of $5,000, and Social Security benefits of $5,000. What is his adjusted gross income?

A. $19,000
B. $24,000
C. $25,000
D. $29,000

ANSWER: C. $25,750
AGI includes taxable income sources. Exclude municipal bond interest ($2k). Calculate taxable SS: Other taxable income = $12k (wages) + $4k (interest) + $3k (dividends) + $5k (unemployment) = $24,000. Provisional Income (PI) = $24k + $2k (tax-exempt) + 0.5*$5k (SS) = $28,500. For single, taxability starts > $25k. Taxable SS = lesser of 0.5*$5k ($2,500) or 0.5*($28.5k-$25k) = 0.5*$3.5k = $1,750. AGI = $24,000 (other taxable income) + $1,750 (taxable SS) = $25,750.
Topic: Adjusted Gross Income (AGI Calculation with Social Security)

QUESTION 43

43. Nathan Turner's estate had a gross value of $5,000,000 at the time of his death in 2024. Allowable deductions for expenses and debts totaled $600,000. Considering the applicable unified credit and exemption for 2024, what is the amount of federal estate tax due from Nathan Turner's estate?

A. $0
B. $600,000
C. $4,400,000
D. $5,000,000

ANSWER: A. $0
Federal estate tax is imposed on the taxable estate (Gross Estate - Deductions) exceeding the applicable exclusion amount. For 2024, the exclusion amount is $13,610,000. Nathan's taxable estate is $5,000,000 (Gross) - $600,000 (Deductions) = $4,400,000. Since the taxable estate ($4.4M) is less than the 2024 exclusion amount ($13.61M), the unified credit available will completely offset any calculated tentative tax. The federal estate tax due is $0.
Topic: Estate Tax (Calculation - Applicable Exclusion Amount)

QUESTION 54

54. Daniel, age 38, is a widowed taxpayer with two minor children and provides for all household costs. His spouse passed away in the previous year. Which filing status would likely offer him the lowest tax rate?
A. Married filing separately
B. Head of household
C. Qualifying Surviving Spouse with dependent child
D. Married filing jointly

Question 54 - C. Qualifying Surviving Spouse with dependent child
A taxpayer whose spouse died in the *previous* tax year may be eligible to use the Qualifying Surviving Spouse (QSS) filing status for the current tax year (and the next year) if they meet certain conditions: have not remarried, could have filed MFJ in the year of death, and provide >50% of the cost of maintaining a home for the entire year for their dependent child. Daniel's spouse died in 2023 (the previous year). He meets the conditions for 2024 (widowed, supports dependent children living with

him). QSS status provides the same standard deduction and tax brackets as MFJ, which is generally more favorable than Head of Household (B) or Single. MFJ (D) is only available in the year of death.
Topic: Filing Status

QUESTION 67

67. Laura, who files jointly with her spouse, operates a business that posted $120,000 in qualified business income in 2024. With total taxable income amounting to $370,000, $35,000 paid in employee wages, and $60,000 invested in qualified property, what QBI deduction can she claim for the year?

A. $0
B. $17,500
C. $24,000
D. $60,000

ANSWER: C. $24,000
The Qualified Business Income (QBI) deduction is generally the lesser of 20% of QBI or 20% of taxable income (before the QBI deduction). For taxpayers above certain thresholds ($383,900 MFJ in 2024), W-2 wage/UBIA limits apply (unless it's an SSTB, where the deduction phases out entirely). Laura's taxable income ($370,000) is below the 2024 MFJ threshold where these limits begin for non-SSTBs. Her deduction is the lesser of (1) 20% * $120,000 QBI = $24,000, or (2) 20% * $370,000 Taxable Income = $74,000. The lesser amount is $24,000.
Topic: Qualified Business Income (QBI) Deduction (Calculation Below Threshold)

QUESTION 76

76. After Laura passed away in June of the current year, her estate was valued, including: a personal residence valued at $500,000 with a $150,000 mortgage; a savings account totaling $200,000 with $20,000 accrued interest; a stock portfolio valued at $2,500,000 with a basis of $1,000,000; and a life insurance policy worth $200,000 naming her son as the irrevocable beneficiary. Assuming no alternate valuation date is elected, what is the gross value of her estate?

A. $2,500,000
B. $2,870,000
C. $3,200,000
D. $3,220,000

ANSWER: D. $3,220,000
The gross estate includes the fair market value (FMV) of all property the decedent owned or had an interest in at death. Life insurance proceeds payable to named beneficiaries are included only if the decedent possessed any "incidents of ownership" in the policy at death. Assuming Laura held no such incidents over the policy payable to her irrevocable beneficiary son, it's excluded. Gross Estate = $500,000 (residence FMV; mortgage is a deduction) + $220,000 (savings + accrued interest) + $2,500,000 (stock FMV) + $0 (life insurance) = $3,220,000.
Topic: Estate Tax (Gross Estate Components - Life Insurance)

QUESTION 95

ANSWER: A. $7,000
The annual gift exclusion for 2024 is $18,000. Eleanor's gift exceeds this by $7,000, which is the taxable portion.
Topic: Gift Tax

PART 1 - PRACTICE EXAM #2

QUESTION 9

9. Jonathan Moore, a member of a religious order with a vow of poverty, takes a job and works as an employee of St. Jude's Hospital, a separate, tax-exempt organization, earning a $12,000 annual salary. As required by his vow of poverty, Jonathan turns over his entire salary to the religious order. What amount of this $12,000 salary is included in Jonathan's gross income for federal income tax purposes?

A. $0
B. $3,000
C. $6,000
D. $12,000

ANSWER: D. $12,000
Generally, income earned by an individual is taxable to that individual, even if they have taken a vow of poverty and turn the earnings over to a religious order. When a member of an order works as an employee for an outside organization (like St. Jude's Hospital, a separate entity), the salary earned is typically considered income earned in their individual capacity.
Although Jonathan turns over his salary due to his vow, the $12,000 was earned through his employment relationship with the hospital. Therefore, the full $12,000 salary is included in Jonathan's gross income for federal income tax purposes. The vow or assignment of income does not shift the tax liability away from the person who earned the income in this type of employment situation.
Topic: Gross Income (Members of Religious Orders - Outside Employment)

QUESTION 19

19. Peter is evaluating whether he can claim his uncle, George, as a dependent on his 2024 tax return. George is not disabled and is under 65. George's only sources of income during the year were:
- Gross rental income from a property he owns: $4,000
- Expenses directly related to the rental property: $3,000
- Interest received from a municipal bond: $1,200
- Ordinary dividends from stocks: $2,000
- No social security income
Peter provided more than half of George's total support. For the purpose of determining whether Peter can claim George as a qualifying relative dependent, what is George's gross income according to IRS rules?

A. $3,000 B. $5,200 C. $6,000 D. $12,200

ANSWER: C. $6,000
To determine if George can be claimed as a qualifying relative, his gross income must be below the limit for the tax year ($5,050 for 2024). Gross income for this test includes all income that is not tax-exempt. George's gross income includes the Gross rental income ($4,000) and the Ordinary dividends ($2,000). Expenses related to rental income are not subtracted for this calculation. Interest from municipal bonds ($1,200) is tax-exempt and therefore not included in gross income for this test. George's gross income is $4,000 + $2,000 = $6,000. (Note: Because George's gross income of $6,000 exceeds the $5,050 limit for 2024, Peter cannot claim him as a dependent).
Topic: Dependents

QUESTION 22

22. Which of the following conditions must be met for a taxpayer to qualify for tax benefits on foreign earned income?

A. The taxpayer passes the tax home test.
B. The taxpayer passes the bona fide residence test.
C. The taxpayer passes the physical presence test.
D. The taxpayer meets the tax home test, and meets either the bona fide residence test or the physical presence test.

ANSWER: D. The taxpayer meets the tax home test, and meets either the bona fide residence test or the physical presence test.
To qualify for the foreign earned income exclusion, a U.S. taxpayer must meet the tax home test and satisfy either the bona fide residence test or the physical presence test.
Topic: Foreign Earned Income Exclusion Eligibility

QUESTION 29

29. In 2024, a taxpayer has a taxable income of $120, a net operating loss (NOL) from before the Tax Cuts and Jobs Act (TCJA) of $70, and a 2023 NOL of $60. How much of the 2024 taxable income can the taxpayer offset on their tax return?

A. $0
B. $60
C. $70
D. $110

ANSWER: D. $110

Net Operating Losses (NOLs) carried forward are used to offset taxable income, subject to certain rules. Pre-TCJA NOLs (arising in tax years beginning before 2018) can generally offset 100% of taxable income. NOLs arising in tax years beginning after 2017 (like the 2023 NOL) are generally limited to offsetting 80% of taxable income remaining after deducting any pre-TCJA NOLs. For 2024:
Taxable income = $120.

Apply the pre-TCJA NOL first: $70. This offsets $70 of income. Remaining taxable income = $120 - $70 = $50.
Apply the 2023 NOL ($60). The deduction is limited to 80% of the remaining taxable income: 80% * $50 = $40. The taxpayer can use $40 of the 2023 NOL.
Total taxable income offset = $70 (from pre-TCJA NOL) + $40 (from 2023 NOL) = $110.
Topic: Net Operating Losses (NOLs)

QUESTION 35

35. Nathan inherits a painting in 2024. The painting's fair market value on the date of the previous owner's death (and therefore Nathan's basis) was $6,000. Nathan spends $1,500 on documented conservation efforts that are considered improvements to the painting, increasing its basis. He later sells the painting for $9,000. Nathan's taxable income for 2024, not including this transaction, is $70,000. Assume Nathan has held the painting for more than one year. He has no other capital gains or losses. What amount of federal income tax is specifically attributable to the gain on the sale of the painting?

A. $420
B. $225
C. $330
D. $1,500

ANSWER: C. $330
Nathan's basis in the inherited painting is its Fair Market Value (FMV) on the date of death ($6,000), increased by capital improvements ($1,500), resulting in an adjusted basis of $7,500. The sale price was $9,000, leading to a long-term capital gain of $1,500 ($9,000 - $7,500). Inherited property automatically qualifies for long-term treatment. Gains on collectibles held long-term are taxed at the lower of the taxpayer's ordinary income tax rate or 28%. With $70,000 in taxable income (2024, single), Nathan is in the 22% ordinary income tax bracket. Since 22% is lower than 28%, the gain is taxed at 22%. The tax attributable to the painting's sale is $1,500 * 0.22 = $330.
Topic: Capital Gains Tax on Collectibles; Basis Adjustment

QUESTION 36

36. Eli donates $350 to a university's athletic scholarship program in 2024. Separately, he purchases season tickets to the university's football games for their fair market value of $150. What portion of his $350 donation to the athletic scholarship program is deductible as a charitable contribution?

A. $0
B. $150
C. $200
D. $350

ANSWER: D. $350
Charitable contributions are generally deductible if made to qualified organizations. The Tax Cuts and Jobs Act eliminated the deduction for contributions made in exchange for the right to purchase tickets or seating at university athletic events. However, Eli's $350 donation was made to the university's athletic scholarship program, and the question does not state it conferred any right to purchase tickets (he purchased tickets separately at Fair Market Value). Assuming the $350 donation provided no substantial benefit in return (quid pro quo), the entire amount is potentially deductible as a charitable contribution, subject to AGI limitations.
Topic: Charitable Contributions

QUESTION 38

38. Rachel buys 200 shares at $90 each, and subsequent to her purchase, a 3-for-1 stock split occurs. What is the new basis per share after adjusting for the split?

A. $0
B. $30
C. $90
D. $180

ANSWER: B. $30
A stock split changes the number of shares owned and the basis per share, but the total basis of the investment remains the same. Rachel initially had 200 shares at $90 each, for a total basis of $18,000 (200 * $90). A 3-for-1 stock split means she now owns three times the original number of shares: 200 * 3 = 600 shares. To find the new adjusted basis per share, divide the total basis by the new number of shares: $18,000 / 600 shares = $30 per share.
Topic: Basis of Assets (Stock Splits)

QUESTION 48

48. For 2024, what is the maximum amount a 40-year-old taxpayer can claim as a deductible for qualified long-term care insurance premiums on Schedule A of Form 1040?

A. $280
B. $450
C. $470
D. $480

ANSWER: C. $470
The IRS provides specific age-based limits on the deductibility of long-term care insurance premiums. These are deductible as an itemized deduction on Schedule A, subject to the 7.5% of AGI limitation for medical expenses. For an individual who is age 40 or less at the close of the taxable year, the limit for 2024 is $470.
Topic: Deductible Medical Expenses on Schedule A

QUESTION 60

60. Which statement about tip income reporting is correct?

A. If the taxpayer is an indirectly tipped employee (e.g., a busser or bartender), they are not required to report tips to their employer.
B. Any tips the taxpayer reported to their employer are to be included in the wages in box 1 (Wages, tips, other compensation) of their Form W-2.
C. If the only tips a taxpayer receives in a month are charged tips (e.g., credit and debit card charges) distributed to them by their employer, they are not required to report these tips to the employer.
D. The taxpayer must report the value of all non-cash tips, such as tickets or passes, to their employer on Form 4070.

QUESTION 61

61. An unmarried taxpayer fully supports an elderly parent living separately. The taxpayer is claiming the parent as a dependent. Which filing status should the taxpayer use that is generally most beneficial?

A. Single
B. Head of household
C. Qualifying Surviving Spouse
D. Married filing separately

ANSWER: B. Head of household
Head of Household filing status generally provides a lower tax rate and a higher standard deduction than Single filing status. To qualify for Head of Household, the taxpayer must be unmarried (or considered unmarried) and pay more than half the costs of keeping up a home for a qualifying person. A parent *can* be a qualifying person, even if they don't live with the taxpayer, *provided* the taxpayer pays more than half the costs of keeping up the parent's *main home* for the entire year, *and* the taxpayer can claim the parent as a dependent. The taxpayer does not need to live in the same home. Qualifying Surviving Spouse is only available for two years following the death of a spouse, and Married Filing Separately generally results in a higher tax liability than Head of Household.
Topic: Head of Household Filing Status

QUESTION 65

65. Captain Margaret Jones was stationed in Afghanistan from December 1, 2022, to March 31, 2024. Considering the tax provisions for military personnel in combat zones, what is her tax filing deadline for the 2024 tax year?

A. April 15, 2025
B. October 15, 2025
C. June 15, 2025
D. January 15, 2025

ANSWER: A. April 15, 2025
Combat zone tax deadlines are automatically extended for at least 180 days after leaving the zone. Captain Jones left the combat zone March 31, 2024, so this 180-day period ended around September 27, 2024. Her 2024 tax return's normal due date (April 15, 2025) is after this extension period ended. Thus, her 2024 filing deadline is April 15, 2025.
Topic: Military Tax Filing Deadlines (Combat Zone)

QUESTION 68

68. What is the base amount used in the calculation of the Credit for the Elderly or the Disabled for a single taxpayer aged 65 or older in 2024?

A. $3,750
B. $5,000
C. $3,500
D. $4,000

ANSWER: B. $5,000
The Credit for the Elderly or the Disabled is a nonrefundable credit calculated using Schedule R (Form 1040). The calculation starts with an "initial amount" based on filing status and age. For a single individual age 65 or older, the initial amount is $5,000. This initial amount is then reduced by nontaxable Social Security benefits, other nontaxable pensions, and one-half of adjusted gross income (AGI) above certain limits.
Topic: Credit for the Elderly or the Disabled

QUESTION 72

72. Which statement about Publicly Traded Partnerships (PTPs) is incorrect?

A. A PTP is any partnership where interests are traded on an established securities market (or readily tradable on a secondary market).
B. A PTP can sometimes be treated as a corporation for tax purposes.
C. A PTP with effectively connected income (ECI) must withhold tax on distributions of that ECI to its foreign partners at the highest tax rate applicable to that type of partner.
D. A PTP's withholding rate on distributions of ECI to foreign partners is always a flat 37%.

ANSWER: D. A PTP's withholding rate on distributions of ECI to foreign partners is always a flat 37%.
This statement is *incorrect*. While PTPs with ECI must withhold tax on distributions to foreign partners, the withholding rate is *not* a flat 37%. Instead, the withholding rate is the *highest tax rate applicable to the specific type of partner* (individual, corporation, etc.) receiving the distribution. For example, if the foreign partner is an individual, the withholding rate would be the highest individual income tax rate for the relevant year. If the partner is a corporation, the highest corporate rate would apply. Options A, B, and C are all correct statements about PTPs.
Topic: Publicly Traded Partnerships (PTPs); Withholding on ECI

QUESTION 75

75. Which of the following is *not* included in "provisional income" when calculating the potential taxability of Social Security benefits?

A. Taxable distributions from a traditional IRA.
B. Interest earned on municipal bonds.
C. Wages earned from a part-time job.
D. The excluded portion of a qualified charitable distribution (QCD) from an IRA.

ANSWER: D. The excluded portion of a qualified charitable distribution (QCD) from an IRA.
To determine if Social Security benefits are taxable, you calculate "provisional income" (also known as "combined income"). This includes:
- One-half of Social Security benefits.
- Most other taxable income, such as wages, taxable pensions, interest, dividends, and traditional IRA distributions.
- Tax-exempt interest (e.g., from municipal bonds).
However, a qualified charitable distribution (QCD) from an IRA, which is directly transferred from the IRA trustee to an eligible charity, is excluded from gross income. Because it's excluded from gross income, it's also not included in the provisional income calculation. All the other options are included in provisional income.
Topic: Taxability of Social Security Benefits (Provisional Income)

QUESTION 77

77. Alice, age 48, has sufficient earned income to contribute the maximum to her IRAs, and her Modified Adjusted Gross Income (MAGI) is low enough to allow her to contribute the maximum to a Roth IRA. Her employer, ACME Tools, contributes $5,500 to her SEP-IRA, and Alice adds $3,500 herself to the SEP-IRA. What is the maximum amount Alice can contribute to a Roth IRA at a different investment company in 2024?

A. $0
B. $3,500
C. $5,500
D. $7,000

ANSWER: D. $7,000
Contributions to a SEP-IRA, whether made by the employer or the employee (in the case of self-employment), do not affect an individual's ability to contribute to a separate Roth IRA or traditional IRA. The SEP-IRA has its own, separate contribution limits. For 2024, the maximum contribution an individual under age 50 can make to a Roth IRA (or a traditional IRA, or a combination of the two) is $7,000, provided they meet the earned income and MAGI requirements. The revised question explicitly states that Alice does meet both of these requirements. Therefore, she can contribute the full $7,000 to her Roth IRA. The amounts contributed to the SEP-IRA are

irrelevant to this calculation.
Topic: IRA Contribution Limits (SEP-IRA vs. Roth IRA)

QUESTION 80

80. Peter, a single taxpayer, is certified legally blind by his ophthalmologist on December 1, 2024, due to a degenerative eye condition. He is 55 years old. What is the amount of the additional standard deduction Peter can claim on his 2024 tax return specifically because of his blindness?

A. $1,950
B. $1,600
C. $0
D. $3,200

ANSWER: A. $1,950
Taxpayers who are blind or age 65 or older are entitled to an additional standard deduction amount above the regular standard deduction. For 2024, the additional standard deduction for a single individual who is either blind or 65 or older is $1,950. Since Peter is certified legally blind, he qualifies for this additional standard deduction. The question specifically asks for the additional amount due to blindness.
Topic: Standard Deduction (Additional Amount for Blindness)

QUESTION 81

81. For 2024, Kelly is unmarried and paid more than half the cost of keeping up her home. All of the following dependents would qualify Kelly to file as head of household except:

A. Kelly's granddaughter, who lived with her but was absent from her home for 10 months in 2024 while attending boarding school.
B. Kelly's married daughter, who could properly be claimed as a dependent on her mother's return only.
C. Kelly's mother, whom she can claim as a dependent and whose main home for 2024 was a home for the elderly for which Kelly paid more than one-half the cost.
D. Kelly's brother, whom Kelly can claim as a dependent, who lived with her for the first five months of the year and then moved into his own separate apartment before passing away later in the year.

ANSWER: D. Kelly's brother, whom Kelly can claim as a dependent, who lived with her for the first five months of the year and then moved into his own separate apartment before passing away later in the year.
To qualify for Head of Household status, Kelly must provide a home for a qualifying person for more than half the year (with special rules for parents and temporary absences). Kelly's brother, who moved out to live independently before his death and did not live with Kelly until his death, nor did Kelly maintain his separate main home until death, would not qualify Kelly under the standard rules

or the special rule for a deceased qualifying person.
Topic: Filing Status (Head of Household Qualifying Person)

QUESTION 85

85. Lauren's husband Mark passed away in October 2024. She supports their two young children, ages 9 and 11, and has not remarried. What filing status can Lauren use in 2024 and for the next two tax years, assuming she remains unmarried?

A. Married Filing Jointly for 2024; Qualifying Surviving Spouse for 2025 and 2026.
B. Qualifying Surviving Spouse for 2024, 2025, and 2026.
C. Married Filing Jointly for 2024, 2025, and 2026.
D. Head of Household for 2024, 2025 and 2026.

ANSWER: A. Married Filing Jointly for 2024; Qualifying Surviving Spouse for 2025 and 2026.
For 2024, the year her husband Mark passed away, Lauren can file as Married Filing Jointly. For the two tax years following the year of her husband's death (2025 and 2026), if she remains unmarried, has a dependent child living with her for the entire year, and pays more than half the cost of maintaining her home, she can use the Qualifying Surviving Spouse filing status. This status allows her to use the married filing jointly tax rates and standard deduction.
Topic: Filing Status (Surviving Spouse)

QUESTION 88

88. Which type of income is not reported on Form 1099-MISC?

A. Rents of $600 or more
B. Non-employee compensation over $600
C. Medical and health care payments of $600 or more made in the course of a trade or business
D. Crop insurance proceeds of $600 or more

ANSWER: B. Non-employee compensation over $600
Since the introduction of Form 1099-NEC, non-employee compensation is reported on this form instead of Form 1099-MISC.
Topic: Forms for Reporting Income

QUESTION 89

89. Emma Thompson has a savings account. Due to restrictions on withdrawals, she can only access a portion of her funds at this time. During the year, $90 of interest was credited to her account and made available for withdrawal. An additional $20 of interest accrued on the account, but was not yet credited and was not available for withdrawal due to the account restrictions. What amount of interest should Emma include in her income for the year?

A. $0
B. $20
C. $90
D. $110

ANSWER: C. $90
Under the doctrine of constructive receipt, income is taxable when it is credited to the taxpayer's account, set apart for them, or otherwise made available for withdrawal. In this case, only $90 of interest was actually credited and made available. The additional $20, while accrued, was not constructively received because it was not yet credited and was not available for withdrawal.
Topic: Interest Income; Constructive Receipt

PART 2 - PRACTICE EXAM #1

QUESTION 8

8. A corporation records a $35,000 operational loss and receives $120,000 in dividends from a corporation it owns 25% of. Its pre-dividend deduction taxable income is $85,000. What is its taxable income?

A. $29,750
B. $55,250
C. $60,000
D. $85,000

ANSWER: A. $29,750
The corporation's taxable income before considering the dividends-received deduction (DRD) is given as $85,000. Because the corporation owns 25% of the distributing corporation, it is eligible for a 65% DRD. The tentative DRD is calculated as 65% of the dividends received: $120,000 * 0.65 = $78,000.
However, the DRD is limited to 65% of the corporation's taxable income *before* the DRD. This limitation is calculated as $85,000 * 0.65 = $55,250.
We must then determine if taking the full tentative DRD ($78,000) would create a net operating loss (NOL). Since $85,000 - $78,000 = $7,000, which is not an NOL, the DRD is limited to the lesser amount of $55,250.
Therefore, the corporation's final taxable income is $85,000 - $55,250 = $29,750.
Topic: Corporate Dividends-Received Deduction (DRD)

QUESTION 12

12. Charles pays $15,000 on June 1, 2024, for a business insurance policy effective from that date for one year. How much of this expense is deductible in 2024?

A. $1,250
B. $7,500
C. $8,750
D. $15,000

ANSWER: D. $15,000
Prepaid insurance premiums are typically deducted over the period they cover. However, a key exception is the 12-month rule. This rule allows a taxpayer to currently deduct a prepaid expense if the right or benefit created does not extend beyond the earlier of:

- 12 months after the first date the taxpayer realizes the right or benefit, OR
- The end of the tax year following the tax year in which the payment was made.

In this scenario, the policy covets exactly 12 months (June 1, 2024 / May 31, 2025). This falls squarely within the 12-month rule. Charlie is permitted to deduct the full $15,000 in 2024.
Topic: Prepaid Expenses (12-Month Rule)

QUESTION 13

13. Henry owns a music school and uses the accrual accounting method. On September 1, 2024, he receives $6,000 for a one-year contract covering 36 lessons starting that day. He delivers six lessons by year-end. What portion of the payment must Henry include in his 2024 income?

A. $0
B. $1,000
C. $5,000
D. $6,000

ANSWER: B. $1,000
Under the accrual method of accounting, income is generally recognized when it is *earned*, regardless of when payment is received. Henry received $6,000 for 36 lessons, meaning each lesson costs $166.67. Since he performed 6 lessons in 2024, he should report the income from those 6 lessons: 6 lessons * $166.67/lesson = $1,000.
Topic: Accrual Method of Accounting

QUESTION 21

21. Marcia trades in her two-year-old business vehicle, with a $3,800 adjusted basis and $5,000 trade-in value, for a new $22,000 model. Normally, she would trade in her old car and pay $17,000. To increase her depreciation basis, she sells her old car to the dealer for $5,000 cash and buys the new one outright for $22,000. What is Marcia's depreciation basis for the new car?

A. $3,800
B. $5,000
C. $20,800
D. $22,000

ANSWER: C. $20,800
The IRS does not allow taxpayers to circumvent the like-kind exchange rules by structuring a transaction as a separate sale and purchase when, in substance, it's a trade-in. This is known as the "step transaction doctrine" or the "substance over form" doctrine. Even though Marcia structured the transaction as a sale and a separate purchase, the IRS will likely treat it as a like-kind exchange because it occurred with the same dealer. Here's the correct calculation, treating it as a like-kind exchange:
- Adjusted Basis of Old Vehicle: $3,800
- Boot Paid: $17,000 (This is the difference between the new car's price and the trade-in value, not the full $22,000, because the dealer gave her credit for the trade).

- Basis of New Vehicle: Adjusted Basis of Old Vehicle + Boot Paid = $3,800 + $17,000 = $20,800
- Because the dealer gave her credit, her basis in the new vehicle is 20,800.

Topic: Like-Kind Exchanges (Substance Over Form)

QUESTION 33

33. Which statement about the built-in gains tax for S corporations that were previously C corporations is correct?

A. The built-in gains tax is passed through to the shareholders and paid at the shareholder level.
B. The built-in gains tax applies only to recognized built-in gains during the 5-year period beginning on the first day of the first tax year for which the corporation was an S corporation.
C. The built-in gains tax applies only if the corporation was a sole proprietorship before electing S corporation status.
D. The built-in gains tax is calculated at the individual income tax rates of the shareholders.

ANSWER: B. The built-in gains tax applies only to recognized built-in gains during the 5-year period beginning on the first day of the first tax year for which the corporation was an S corporation.
The built-in gains tax is a corporate-level tax imposed on S corporations that were previously C corporations. It applies to the "recognized built-in gain" on assets the corporation held at the time of its conversion from a C corporation to an S corporation. Crucially, this tax only applies if those assets are disposed of within a specific recognition period. The recognition period is 5 years, beginning on the first day of the first tax year for which the corporation is an S corporation.
A is incorrect: The tax is paid at the corporate level, not by the shareholders directly (although it reduces the income flowing through to them).
C is incorrect: The tax applies to former C corporations, not former sole proprietorships.
D is incorrect: The tax is calculated at the highest corporate tax rate (currently 21%), not individual rates.
Topic: S Corporation Built-In Gains Tax

QUESTION 39

39. John receives Income in Respect of a Decedent (IRD) in 2024. He also incurs other expenses during the year. Is John required to itemize his deductions in order to deduct the estate tax attributable to the IRD?

A. Yes, the deduction is only available if he itemizes and his total itemized deductions exceed his standard deduction.
B. No, the deduction for estate tax attributable to IRD can be claimed regardless of whether John itemizes his deductions.
C. Yes, the deduction is only available if the IRD is related to a trade or business.
D. No, the deduction is claimed directly on Form 1040 and reduces gross income, not AGI.

ANSWER: B. No, the deduction for estate tax attributable to IRD can be claimed regardless of whether John itemizes his deductions.
The deduction for federal estate tax attributable to Income in Respect of a Decedent (IRD) is a miscellaneous itemized deduction that is NOT subject to the 2%-of-AGI floor. Critically, the suspension of miscellaneous itemized deductions subject to the 2% floor by the Tax Cuts and Jobs Act (TCJA) does not affect the deductibility of the estate tax attributable to IRD. It remains deductible. Furthermore, although it is an itemized deduction, taxpayers can take the deduction even if they don't take other itemized deductions. It is deductible even if the taxpayer claims the standard deduction.
Topic: Deductions (IRD)

QUESTION 46

46. Retired at 75, Joseph, who stopped working at his family business, has an RMD of $2,500 for 2024 but only takes out $2,000. What excise tax might he face?

A. $75
B. $125
C. $150
D. $500

ANSWER: B. $125
The SECURE Act 2.0 reduced the penalty for failure to take an RMD. It used to be 50%, it was reduced to 25%, and can be further reduced to 10% if corrected in a timely manner. The shortfall is $2,500 - $2,000 = $500. The penalty is 25% of the shortfall, not 50%. Therefore the tax would be 500 x .25 = $125
Topic: Required Minimum Distributions (RMDs)

QUESTION 49

49. XYZ Corporation made cash contributions totaling $60,000 to qualified charitable organizations. XYZ received $35,000 in dividends from a domestic corporation in which it holds a 26% ownership stake. XYZ's taxable income for the year was $180,000 after the correct dividends-received deduction but before the deduction for charitable contributions. What is XYZ's charitable contribution deduction for the year?

A. $18,000
B. $20,275
C. $50,687.50
D. $60,000

ANSWER: B. $20,275
A corporation's deduction for cash charitable contributions is generally limited to 10% of its taxable income, calculated *before* the charitable contribution deduction, the dividends-received deduction (DRD), NOL carrybacks, and capital loss carrybacks.
XYZ's taxable income *before* the charity deduction but *after* the DRD is $180,000.

The DRD for 26% ownership is 65% * $35,000 = $22,750.
Taxable income *before* both charity and DRD = $180,000 + $22,750 = $202,750.
The 10% limit is 10% * $202,750 = $20,275.
Since the actual contribution ($60,000) exceeds the limit ($20,275), the deduction is capped at $20,275. The excess can be carried forward 5 years.
Topic: Corporate Taxation (Charitable Contribution Deduction Limit)

QUESTION 50

50. Corporations are allowed a dividends-received deduction (DRD) for dividends received from taxable domestic corporations, subject to certain requirements. Which of the following is a necessary condition for a corporation to claim the DRD on dividends received?

A. The distributing corporation is a tax-exempt entity.
B. The receiving corporation held the stock of the distributing corporation for more than 45 days during a specific period surrounding the ex-dividend date.
C. The dividend is received from a Real Estate Investment Trust (REIT).
D. The receiving corporation is *not* obligated to make related payments (e.g., short sale payments) with respect to substantially similar or related property.

ANSWER: B. The receiving corporation held the stock of the distributing corporation for more than 45 days during a specific period surrounding the ex-dividend date.
The dividends-received deduction (DRD) is intended to mitigate the multiple levels of taxation on corporate earnings. To prevent corporations from taking advantage of the DRD by briefly holding stock just to receive the dividend, there's a holding period requirement. Generally, the corporation must have held the stock for more than 45 days during the 91-day period that begins 45 days before the ex-dividend date[1] and ends 45 days after that date. This is a necessary condition (though not the only condition) for claiming the DRD.
Topic: Dividends-Received Deduction (DRD); Holding Period Requirement

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QUESTION 51

ANSWER: B. Alice no gain and Mark $8,000 gain
Mark's $8,000 recognized gain is due to the cash 'boot' received; Alice's transaction involving cash for stock and receipt of land is treated as resulting in no gain for her under the Section 351 formation context.
Topic: Recognition of Gain on Property for Stock Exchange

QUESTION 55

55. In tax year 2019, MNO Corporation reported $2,000 in long-term capital gains and $5,000 in short-term capital gains. In tax year 2023, MNO Corporation incurred a $15,000 long-term capital loss and a $6,000 short-term capital gain. MNO Corporation reported no other capital gains or losses in any other tax year. How much net capital loss will be available for MNO Corporation to carry into tax year 2024?

A. $0
B. $1,000
C. $6,000
D. $9,000

ANSWER: D. $9,000
Corporations can carry back a net capital loss to the three preceding tax years and carry it forward for up to five years. The loss is carried back first to the earliest year and then forward, offsetting any capital gains in those years. The carried loss is always treated as a short-term capital loss in the year to which it's carried.
2019: Net capital gain of $7,000 ($2,000 long-term + $5,000 short-term).
2023: Net capital loss of $9,000 ($15,000 long-term loss - $6,000 short-term gain).
Carryback: MNO Corporation must first carry back the $9,000 loss to the three preceding years: 2020, 2021 and 2022. Since there were no capital gains in those years, the entire $9,000 loss is carried forward.
The entire loss will not have been absorbed.
2024: The full $9,000 net capital loss from 2023 is available as a carryforward to 2024.
Topic: Corporate Capital Loss Carrybacks and Carryforwards

QUESTION 56

56. As of December 31, 2024, Cooper, Inc. had incurred $7,000 in potential market feasibility costs and $3,000 in advertising costs for the business launch (totaling $10,000 in §195 start-up costs), plus $4,500 in legal fees for setting up the corporation (§248 organizational costs) and $22,000 for equipment purchases. Cooper, Inc. started business operations on January 1, 2024. Cooper elects to forgo the initial $5,000 first-year deduction for its start-up costs and instead amortizes the entire $10,000 of start-up costs over the standard 180-month period. What is the start-up cost amortization expense Cooper, Inc. can deduct in 2024?

A. $666.67
B. $4,500.00
C. $5,166.67
D. $10,000.00

ANSWER: A. 666.67
Under Section 195, taxpayers can elect to amortize qualified business start-up costs over a period of 180 months, beginning with the month the active trade or business begins. Taxpayers can also elect to deduct up to $5,000 in the first year, but this question specifies that Cooper Inc. *elects to forgo* this initial deduction and amortizes the full amount. Cooper Inc. incurred $10,000 in qualifying start-up costs and began business on January 1, 2024. The full $10,000 is amortized over 180 months.Monthly amortization = $10,000 / 180 months = $55.556 (rounded). Since the business operated for all 12 months of 2024, the total amortization expense for start-up costs in 2024 is $55.556 * 12 months = $666.67 (rounded).
Topic: Business Expenses (Start-up Cost Amortization - §195)

QUESTION 62

ANSWER: D. When the liquidating distribution equals or exceeds $600 in a calendar year
Form 1099-DIV is required for each person to whom the corporation has paid dividends and other distributions on stock when it amounts to $600 or more in the case of a liquidating distribution.
Topic: Reporting Dividends and Other Distributions

QUESTION 65

65. Linda and Mark, a married couple, made gifts in 2024: Linda gave $50,000 to her sister and Mark gave $30,000 to his nephew. They agree to split the gifts. What is the taxable amount of gifts, after the annual exclusion, each must report on Form 709 - United States Gift (and Generation-Skipping Transfer) Tax Return?

A. Linda and Mark each have taxable gifts of $7,000
B. Linda has a taxable gift of $24,000 and Mark has a taxable gift of $12,000
C. Linda and Mark each have taxable gifts of $8,000
D. Linda has a taxable gift of $24,000 and Mark has a taxable gift of zero

ANSWER: A. Linda and Mark each have taxable gifts of $7,000
When a couple chooses to split their gifts, the total amount of each gift is divided equally between them, and each spouse takes responsibility for half. The annual exclusion is then applied individually to each half of the gift. In this scenario, a $30,000 gift is split between George and Helen, resulting in each contributing $15,000. Since this amount is below the annual exclusion limit, neither George nor Helen has any taxable amount from this gift.
Similarly, a $50,000 gift is divided equally, giving George and Helen $25,000 each. With the 2024 annual exclusion being $18,000, both George and Helen find themselves with a taxable gift of $8,000 each, calculated as $25,000 minus the $18,000 exclusion.
Topic: Gift Tax Return and Exclusions

QUESTION 66

66. In 2024, Eldon Family Trust, a simple trust, reported the following items of income and expenses during the year:
- Ordinary income from rental properties (gross): $8,000
- Taxable dividend income: $2,000
- Interest income from corporate bonds: $1,500
- Interest income from tax-exempt municipal bonds: $800
- Rental expenses: $3,000
- Trustee fees allocable to income: $1,200
- Trustee fees allocable to corpus: $600
What is Eldon Family Trust's distributable net income (DNI) for 2024?

A. $4,300
B. $5,300
C. $7,500
D. $8,300

ANSWER: C. $7,500
Distributable Net Income (DNI) for a simple trust is calculated to determine the maximum distribution deduction and amount taxable to beneficiaries. It generally starts with taxable income before the distribution deduction, adds back the exemption, adds net tax-exempt income, and subtracts capital gains allocated to corpus.
Gross Taxable Income = $8k rent + $2k div + $1.5k corp int = $11,500. Tax-Exempt = $800. Total = $12,300.
Total Fees = $1.2k + $0.6k = $1,800. Fees allocable to tax-exempt = ($800/$12,300)*$1,800 ≈ $117.
Deductible fees = $1,800 - $117 = $1,683. Total Deductions = $3,000 (rent exp) + $1,683 = $4,683.
Taxable Income before dist ded/exemption = $11,500 - $4,683 = $6,817.
Net Tax-Exempt Income = $800 - $117 = $683.
DNI = $6,817 + $683 = $7,500.
Topic: Trust and Estate Income Tax (Distributable Net Income - DNI)

QUESTION 67

67. Meadow Trust, a complex trust with a document that directs capital gains to the corpus, allocates $3,000 for charitable uses from its gross income and mandates a yearly distribution of $12,000. If Meadow Trust earned $25,000 in gross income, including $6,000 from capital gains, what is its income distribution deduction for 2024?

A. $6,000
B. $12,000
C. $13,000
D. $15,000

ANSWER: B. $12,000
The income distribution deduction for a complex trust is the lesser of (1) the amount distributed (or required to be distributed) other than amounts qualifying for the charitable deduction, or (2) the Distributable Net Income (DNI), reduced by net tax-exempt income. Capital gains allocated to corpus are generally excluded from DNI. Calculate approximate DNI:
Gross Income for DNI ≈ $25k (total) - $6k (cap gain alloc to corpus) = $19k. Reduce by expenses/charity (assume $3k charity deduction applies against this $19k). DNI ≈ $19k - $3k = $16k (ignoring other expenses/exemption). Amount Distributed = $12,000 (mandatory).
Deduction = Lesser of Amount Distributed ($12k) or Adjusted DNI (approx $16k) = $12,000.
Topic: Trust and Estate Income Tax (Complex Trust - Income Distribution Deduction)

QUESTION 72

ANSWER: B $1,000
Frank's basis was his $9,000 cost. He realized a $4,000 gain when selling for $13,000. This $4,000 gain is reduced by Judy's $3,000 previously disallowed loss (from the related-party sale), resulting in Frank's recognized gain of $1,000.
Topic: Capital Gains on Related-Party Transactions

QUESTION 80

80. Family members can be recognized as partners in a partnership where capital is NOT a material income-producing factor (e.g., a service partnership) if:

A. The partnership agreement acknowledges their right to share in the partnership's profits.
B. Capital is not crucial, they genuinely aim to run a business together, agree on profit shares, and each contributes either capital or effort.
C. Capital is essential, they obtained their shares through genuine transactions, own their interests outright, and control them despite family ties.
D. The partnership agreement specifies partner roles, contributions, and their shares in profits, losses, and other partnership aspects.

ANSWER: B. Capital is not crucial, they genuinely aim to run a business together, agree on profit shares, and each contributes either capital or effort.
The recognition of family members as partners for tax purposes depends on the specific facts and circumstances, particularly whether capital is a material income-producing factor in the partnership. When capital is *not* a material income-producing factor (e.g., in a partnership whose income relies primarily on the partners' services or skills), family members are recognized as partners if they genuinely formed the partnership with the intent to conduct business, agreed on how profits and losses would be shared, and each recognized partner contributes either capital *or* substantial or vital services or effort to the business operation. Option B accurately describes these conditions necessary for recognizing family partners in such a scenario where personal services or effort, rather than capital ownership, is the key factor. Option C describes the requirements applicable when capital *is* considered a material income-producing factor.
Topic: Partnership Taxation (Family Partnerships - Service Partnership)

QUESTION 81

81. Under which condition is no gain or loss recognized by a partnership or its partners when property is contributed to the partnership?

A. During the partnership's formation.
B. When the transfer would classify the partnership as an investment company if incorporated.
C. While the partnership is operational.
D. When depreciable property without encumbrances is contributed.

ANSWER: A. During the partnership's formation.
Internal Revenue Code Section 721 generally provides that no gain or loss is recognized by either the partnership or its partners when property is contributed to the partnership in exchange for an interest. This nonrecognition rule applies most fundamentally during the partnership's formation, but also generally applies to subsequent contributions of property. An exception exists under §721(b) which triggers gain recognition if the contribution is to a partnership that would be treated as an investment company if incorporated (involving diversification). Option A describes the primary context where §721 nonrecognition applies.
Topic: Partnership Taxation (Contribution of Property - §721 Nonrecognition)

PART 2 - PRACTICE EXAM #2

QUESTION 14

14. James operates a farm and also earns $8,500 annually from non-farm activities. Which method or methods can James use to report the income from his non-farm activities?

A. James can use both farm and nonfarm methods, choosing the most beneficial.
B. James must use the farm-only method for all income earned.
C. James must use the nonfarm method for all income earned.
D. James must use the regular calculation method for his nonfarm earnings, as his income exceeds the threshold for the nonfarm optional method.

ANSWER: D. James must use the regular calculation method for his nonfarm earnings, as his income exceeds the threshold for the nonfarm optional method.
Farmers may sometimes use optional methods (farm or nonfarm) to calculate earnings for self-employment tax, primarily to gain Social Security credits. The nonfarm optional method has specific eligibility requirements, including limits on nonfarm net earnings (must be less than $6,540 for 2024 and less than 72.189% of gross nonfarm income) and a lifetime use limit (5 times). James's nonfarm earnings of $8,500 exceed the $6,540 threshold, making him ineligible to use the nonfarm optional method. Therefore, he must use the regular calculation method for his $8,500 nonfarm income for self-employment tax purposes.
Topic: Optional Methods for Self-Employment Tax (Farmers)

QUESTION 16

16. Thomas sold 60% of his business to his son, forming a partnership where capital is significant. The partnership had a $75,000 profit. Thomas provided services reasonably valued at $30,000, while his son provided none. After allocating the reasonable compensation for Thomas's services, what amount of the remaining profit is allocated to Thomas based on his capital interest?

A. $18,000
B. $27,000
C. $30,000
D. $45,000

ANSWER: A. $18,000
In family partnerships where capital is a material income-producing factor, profits must first be allocated to reasonably compensate partners for services rendered. Thomas provided $30,000 worth of services, which is allocated to him first. The remaining partnership profit is $75,000 - $30,000 = $45,000. This remaining profit is then allocated based on partnership capital interests (Thomas retained 40%, his son holds 60%). The rephrased question specifically asks for the amount of this remaining profit allocated to Thomas based on his 40% capital interest, which is 40% of $45,000 = $18,000.
Topic: Partnership Profit Allocation

QUESTION 24

ANSWER: C. $600
As a 50% partner, Zara's share of 'book' depreciation (on the $12,000 FMV asset) is $600. The partnership's total tax depreciation (on its $6,000 tax basis) is also $600. Under IRC Section 704(c), to account for the pre-contribution gain, Zara (the non-contributing partner) is allocated tax depreciation equal to her book share, limited to the total tax depreciation available. Thus, Zara is allocated the entire $600.
Topic: Partnership Depreciation Deductions

QUESTION 31

31. Carl owns a tennis academy, uses the accrual method of accounting, and has a calendar tax year. On October 1, 2024, he receives a $10,200 payment for a two-year lesson contract starting immediately. For his financial reporting purposes, Carl includes the full $10,200 advance payment in revenue in 2024. Under the general book conformity principle for advance payments for services (reflecting Treas. Reg. §1.451-8(c)), what amount of the payment must Carl include in gross income for tax purposes in 2024?

A. $0
B. $1,800
C. $9,000
D. $10,200

ANSWER: D. $10,200
Under current tax regulations (reflecting IRC Sec 451(c) and Treas. Reg. §1.451-8) for accrual-method taxpayers receiving advance payments, the timing of income inclusion for tax purposes is often linked to when the income is included for financial reporting purposes. The question states that Carl includes the full $10,200 payment in revenue for his financial reporting in 2024. Following the principle of book conformity embedded in the regulations, since the income is recognized in his financial statements in 2024, Carl must also include the full $10,200 in his gross income for tax purposes in 2024.
Topic: Accounting Methods (Advance Payments & Book Conformity)

QUESTION 45

ANSWER: B. Thompson, Ltd. reports the expense in 2023 and Alice reports the income in 2024
Alice, using the cash basis, includes income when actually received (2024). Thompson, Ltd., using accrual accounting, typically reports an expense when it accrues (2023). If related-party rules (IRC Sec. 267) that could defer Thompson, Ltd.'s deduction are disregarded for this question's basic timing focus, then the interest is expensed by Thompson, Ltd. in 2023, and reported as income by Alice in 2024 when received.
Topic: Accounting Methods

QUESTION 48

48. Special rules apply to like-kind exchanges between related persons. Under these rules, related persons include:

A. The taxpayer and a member of his or her family
B. The taxpayer and a corporation in which the taxpayer directly or indirectly owns more than 50% of the stock (by value).
C. The taxpayer and a partnership in which the taxpayer directly or indirectly owns more than 50% of the capital interest or the profits interest.
D. All of the above

ANSWER: D. All of the above
For purposes of like-kind exchanges, related persons are defined broadly and include family members (siblings, spouses, ancestors, and lineal descendants), a corporation where the taxpayer owns more than 50% of the stock, and a partnership where the taxpayer owns, directly or indirectly, more than a 50% interest in the capital or profits.
Topic: Like-Kind Exchanges - Related Persons

QUESTION 58

58. On October 10, 2024, Partnership X incurred $12,000 in accounting and legal fees to establish the partnership agreement. The partnership commenced business activities on November 1, 2024. Which of the following is a permissible election for the treatment of the $12,000 payment?

A. Deduct $12,000
B. Deduct $6,000 and amortize the remaining $6,000 over a 5-year period
C. Deduct $5,000 and amortize the remaining $7,000 over 180 months
D. Amortize $12,000 over a 5-year period

ANSWER: C. Deduct $5,000 and amortize the remaining $7,000 over 180 months
Partnership organizational costs, such as the $12,000 in legal and accounting fees incurred here, are capital expenditures. Under IRC Section 709, a partnership may elect a specific treatment for these costs. The election allows the partnership to deduct up to $5,000 of organizational costs in the tax year in which the partnership begins business. This $5,000 allowance applies fully here because the total costs ($12,000) do not exceed the $50,000 phase-out threshold. The amount of organizational costs that exceeds the $5,000 deduction ($12,000 - $5,000 = $7,000) must then be amortized ratably over a period of 180 months (15 years), beginning with the month the partnership begins business (November 2024 in this case). Option C accurately describes this elective treatment.
Topic: Partnership Organizational Costs (Section 709 Election)

QUESTION 63

63. Which of the following earnings is not subject to self-employment tax?

A. Gains and losses, by an *investor* (not a dealer) in options or commodities, from trading in commodity futures contracts
B. Fees earned by a professional executor who manages a deceased person's estate
C. Fees received for services performed as a notary public
D. All of the above

ANSWER C. Fees received for services performed as a notary public
Income earned from performing services as a notary public is exempt from self-employment tax.
Topic: Self-Employment Income Exemptions

QUESTION 65

65. John purchased a vacant lot in 2020 for $30,000 and built his primary residence on it for an additional $200,000. In 2024, John relocated to another city but kept the house he constructed in 2020, converting it into a rental property. On the date John made this conversion, the fair market value of the converted property was $250,000. For depreciation purposes, what is John's basis in this rental property?

A. $180,000
B. $200,000
C. $230,000
D. $250,000

ANSWER: C. $230,000
When property is converted from personal use to rental (business or investment) use, the basis for calculating depreciation is the *lower* of the property's adjusted basis or its fair market value (FMV) *at the time of conversion*. John's adjusted basis was the cost of the land plus the cost of the house ($30,000 + $200,000 = $230,000). The FMV at conversion was $250,000. The lower of these two figures is $230,000, which becomes the basis for depreciation.
Topic: Basis of Property (Conversion to Business Use)

QUESTION 67

67. Patricia exchanged her old laptop used in her business for a new laptop valued at $6,000 that she will also use in her business. In addition to her old laptop, Patricia paid $4,500 cash for the new laptop. Her old laptop was worth $1,500 and had an adjusted basis of $600. What is Patricia's basis for depreciation in the new laptop?

A. $1,200
B. $2,100
C. $3,600
D. $6,000

ANSWER: D. $6,000
Since the TCJA, like-kind exchange rules (Sec. 1031) don't apply to personal property like laptops. This is treated as a sale of the old laptop (recognizing a $900 gain) and a purchase of the new one. Therefore, the new laptop's basis for depreciation is its $6,000 cost.
Topic: Basis of Property Received in Exchange

QUESTION 72

72. Olivia sells her 50% interest in DEF partnership to Max for $5,500 cash. Her outside basis in the partnership is $4,000. The partnership consists only of inventory, with an adjusted basis of $7,000 and a fair market value of $8,000. The partnership has no capital assets or other investments. Under §751 (hot assets rule), how should Olivia recognize her gain from the sale?

A. Ordinary income of $2,500 and a capital loss of $800
B. Capital gain of $1,500 on the sale of her partnership interest
C. Ordinary income of $1,500, the amount of cash she received
D. Ordinary income of $500 and a capital gain of $1,000

ANSWER: D. Ordinary income of $500 and a capital gain of $1,000
Section 751 "hot assets" include unrealized receivables and substantially appreciated inventory. When a partner sells their interest, a portion of the gain attributable to these hot assets is treated as *ordinary income*, rather than capital gain.
Total Gain: $5,500 (sale price) - $4,000 (basis) = $1,500
Olivia's Share of Inventory Appreciation: ($8,000 FMV - $7,000 Basis) / 2 = $500
Ordinary Income: $500 (share of inventory appreciation)

Capital Gain: $1,500 (total gain) - $500 (ordinary income) = $1,000
Topic: Sale of Partnership Interest - Section 751 Hot Assets

QUESTION 73

73. Thomas and Richard established a partnership that commenced operations on June 1, 2024. They incurred $4,500 in legal expenses for drafting and negotiating the partnership agreement and $2,500 for accounting services to set up the partnership's financial systems, resulting in $7,000 of qualifying organizational costs. Fees associated with securing assets ($1,500) are treated separately. They elected under Section 709 to amortize all $7,000 of organizational costs over the permissible 180-month period, forgoing the initial $5,000 deduction. What is the correct amortization expense for these organizational costs for the 2024 tax year?

A. $816.69
B. $1,100
C. $272.23
D. $116.67

ANSWER: C. $272.23
Legal, and accounting services directly related to the organization of the partnership. Fees associated with acquiring assets for the partnership are not organizational fees. Add up the qualifying organizational costs: $4,500 (legal) + $2,500 (accounting) = $7,000.
A partnership may elect to deduct a portion of its organizational costs in the year of its operation. In this situation, they did not, so the full amount is amortized over a period of 180 months.
$7,000/180= 38.89
The partnership begins on June 1, 2024. June-December= 7 months. $38.89 * 7 = 272.23
Topic: Organizational Expenses - Partnership

QUESTION 81

81. On May 20, 2023, Martin purchased a Section 1256 regulated futures contract for $60,000. By the end of the year on December 31, 2023, the fair market value of the contract was $68,000. Martin recognized an $8,000 gain in 2023, treated as 60% long-term and 40% short-term capital gain. On March 4, 2024, he sold the contract for $67,000. How should Martin treat the sale of this contract on his 2024 income tax return?

A. $1,000 long-term capital loss
B. $1,000 short-term capital loss
C. $1,000 60% long-term and 40% short-term capital loss
D. $1,000 ordinary gain

QUESTION 83

83. In 2022, Mark purchased a new hybrid vehicle on June 1st for $20,000 and claimed a $2,500 deduction for clean fuel vehicles on his 2022 tax return. He used the vehicle only for personal purposes in 2022. Starting January 1, 2024, he began using it solely for business. The fair market value on that date was $19,000. What is the depreciable basis of the vehicle as of January 1, 2024?

A. $16,500
B. $17,500
C. $19,000
D. $20,000

QUESTION 89

89. Mr. Thompson, a self-employed fish merchant, hosted a business meeting with his top five clients. On their arrival evening, he and his wife entertained these clients and their spouses at home, spending $450 on refreshments. Each client received a gift basket valued at $45 upon departure. The business discussions took place the following day at his office. Assuming these were his only related expenses for the year, what is the deductible amount for these expenditures?

A. $0
B. $125
C. $150
D. $350

ANSWER: B. $125
Entertainment expenses are generally not deductible after the Tax Cuts and Jobs Act (TCJA). Therefore, the $450 spent on refreshments is not deductible. However, business gifts are deductible, up to $25 per recipient per year. Mr. Thompson gave gift baskets to his five clients. Therefore, he can deduct $25 * 5 = $125 for the gifts. The fact that the clients' spouses were present is irrelevant; the refreshments are entertainment, and the gifts are limited to the clients.
Topic: Business Gifts and Entertainment Expenses

QUESTION 92

92. How is the cost of buildings or improvements made on leased land recovered in 2024?

A. Over the duration of the lease.
B. Through a 60-month amortization.
C. The lesser of the lease's remaining term or the MACRS recovery period for the improvement type.
D. As a MACRS deduction, aligning the recovery period with the nature of the improvement rather than the lease term.

ANSWER: D. As a MACRS deduction, aligning the recovery period with the nature of the improvement rather than the lease term.
The cost of buildings or improvements made by the lessee on leased property is recovered through depreciation using the Modified Accelerated Cost Recovery System (MACRS). The recovery period is determined by the type of property (e.g., residential rental property, nonresidential real property), not by the length of the lease. This rule applies regardless of the lease term.
Topic: Leasehold Improvements - Depreciation

QUESTION 99

99. Elaine, who is unmarried and not subject to the passive loss income phase-out rule for rental real estate, has $80,000 in salary (non-passive income) and $20,000 in income from a partnership where she does not materially participate (passive income). She also incurred a $30,000 loss from a rental real estate activity in which she actively participates. What is the total amount of her $30,000 rental real estate loss that she can deduct against her non-passive income (salary) in 2024?

A. $0
B. $5,000
C. $10,000
D. $20,000

ANSWER: C. $10,000
When a taxpayer or their spouse is actively involved in a passive rental real estate activity, the restriction on passive activity losses is lessened, allowing them to deduct up to $25,000 of those losses against their non-passive income. This special allowance serves as an exception to the usual rules that prohibit passive activity loss deductions. Furthermore, the taxpayer may also apply credits from the activity against their tax liability on up to $25,000 of non-passive income, considering any losses already permitted under this exception.
For example, Elaine, who actively participates in her rental real estate activities, has a $30,000 loss. She can offset $20,000 of this loss against her $20,000 in passive income from a partnership.
The remaining $10,000 of her rental real estate loss can then be used to offset $10,000 of her nonpassive income, such as wages.
Topic: Rental Real Estate Tax Deductions

PART 3 - PRACTICE EXAM #1

QUESTION 3

3. In which scenario is a formal written protest not required for IRS Appeals?

A. For an employee plan case, irrespective of the amount involved
B. For amounts not exceeding $25,000 per tax period, allowing a small case request
C. For a partnership case, irrespective of the amount involved
D. When eligible for a special appeals procedure like lien considerations

ANSWER: B. For amounts not exceeding $25,000 per tax period, allowing a small case request
Taxpayers can opt for a small case request instead of a formal written protest if the total amount for any tax period is no more than $25,000.
Topic: IRS Appeals - Written Protest Requirements

QUESTION 6

6. What is not required of an ERO when informing a taxpayer of a rejected return?

A. Presenting a copy of the IRS acknowledgment file that shows the rejection
B. Providing the rejection codes
C. Explaining the rejection codes
D. Advising the taxpayer on corrective actions and resubmission options

ANSWER: A. Presenting a copy of the IRS acknowledgment file that shows the rejection
An ERO must inform the taxpayer of the rejection using the reject codes and explanations but is not required to provide a copy of the IRS acknowledgment file.
Topic: Rejected Electronically Filed Returns

QUESTION 16

16. According to current IRS guidance, how long can processing an amended return (Form 1040-X) typically take?

A. Up to 12 weeks.
B. Up to 16 weeks.
C. More than 20 weeks.
D. Exactly 24 weeks.

ANSWER: C. More than 20 weeks.
According to current IRS guidance, processing an amended return (Form 1040-X) typically takes more than 20 weeks. The IRS website explicitly states this timeframe and advises taxpayers to check the "Where's My Amended Return?" online tool for the most up-to-date status. Options A, B, and D provide specific timeframes that are either outdated or too precise, given the variability in processing times.
Topic: Amended Returns - Processing Time

QUESTION 18

18. Maria submitted her 2020 Form 1040 tax return on time and paid the $2,000 tax due at the time of filing. After a review, she agreed to amendments on the return by signing an agreement on August 20, 2023, and settled the extra tax of $5,000 on September 30, 2023. In 2024, she found missing documents that she believes could prove the additional $5,000 assessment was a mistake. Which statement correctly identifies the deadline for Maria to file a refund claim for the $5,000?

A. August 20, 2025, two years after the agreement was signed
B. April 15, 2025, three years after the original return's due date
C. A refund claim cannot be made once an examination agreement form is signed
D. September 30, 2025, two years after paying the additional tax

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QUESTION 22

22. Under which of the following circumstances would a taxpayer's account most likely NOT be designated as Currently Not Collectible (CNC)?

A. The taxpayer has recently passed away, and the estate has no assets.
B. The IRS has assessed the tax, sent a notice and demand for payment, and the taxpayer has sufficient assets and income to pay the liability but refuses to do so.
C. The statute of limitations for collection has expired.
D. The taxpayer has moved overseas, and the IRS cannot locate them.

ANSWER: B. The IRS has assessed the tax, sent a notice and demand for payment, and the taxpayer has sufficient assets and income to pay the liability but refuses to do so.
A taxpayer's account is designated as Currently Not Collectible (CNC) when the IRS determines that it cannot collect the tax liability at the present time due to various reasons. These reasons typically involve the taxpayer's inability to pay, either because they cannot be located, their assets cannot be found, or they genuinely lack the financial resources. Option B describes a situation where the taxpayer can pay but refuses to do so. This is not a basis for CNC status. The IRS would pursue enforced collection actions (liens, levies, etc.) in this scenario, not designate the account as uncollectible. Options A, C, and D all describe situations that would likely lead to CNC status.
Topic: Currently Not Collectible (CNC) Status

QUESTION 44

44. Which of the following individuals has unlimited representation rights before the IRS, allowing them to represent clients on any tax matter?

A. An enrolled actuary.
B. An AFSP participant.
C. An attorney.
D. An unenrolled preparer.

ANSWER: C. An attorney.
Attorneys, CPAs, and Enrolled Agents have unlimited representation rights before the IRS. This means they can represent clients on any tax matter, before any IRS office.
Enrolled Actuaries (A): Have limited representation rights, generally restricted to specific Internal Revenue Code sections related to qualified retirement plans.
AFSP Participants (B) are unenrolled preparers; they have limited rights.
Unenrolled Preparers (D): Have very limited representation rights, generally restricted to representing clients whose returns they prepared and signed, and only before examination officers (not appeals or collections). Even if they prepared the return, their rights are limited.
Topic: Practice Before the IRS - Representation Rights

QUESTION 46

46. Terry, who was assessed $10,000 by the IRS, found documents he believes prove this assessment wrong. How can he claim a refund?

A. Apply the amount as a credit on his tax return for 2024.
B. Submit Form 1045 for a tentative refund.
C. File an amended return no later than three years from when he filed the original return for the year in question or two years from when he paid the tax, whichever comes later.
D. Immediately initiate a lawsuit for a refund.

QUESTION 52

52. Assuming none of the individuals listed hold professional credentials like Attorney, CPA, or Enrolled Agent, which one represents a relationship category that could potentially be authorized via Form 2848, Power of Attorney and Declaration of Representative, to represent a taxpayer before the IRS for certain limited purposes?

A. An unenrolled return preparer who has prepared at least one return for any taxpayer in the past three years.
B. The unenrolled preparer who prepared the tax return currently under appeal.
C. The taxpayer’s part-time bookkeeper.
D. The taxpayer’s father.

ANSWER: D. The taxpayer's father.
A taxpayer can authorize any individual to represent them before the IRS by filing a valid Form 2848, Power of Attorney and Declaration of Representative, provided the individual is otherwise eligible to practice before the IRS. There is no requirement that the representative be a tax professional. Family members, including a father (D), can be authorized. An unenrolled preparer (A,B,C) has very limited representation rights, even with a Form 2848, and those rights generally only extend to returns they prepared and signed.
Topic: Power of Attorney (Form 2848) - Authorized Representatives

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QUESTION 66

66. According to IRS guidelines, within what timeframe must an enrolled agent notify the IRS of a change in their mailing address or email address?

A. Within 15 days.
B. Within 30 days.
C. Within 60 days.
D. Within 90 days.

ANSWER: B. Within 30 days.
Enrolled agents are required to notify the IRS of a change in their mailing address *or email address* within 30 days of the change. This ensures that the IRS can maintain accurate contact information for important communications regarding enrollment status, renewal, continuing education, and other matters.
Topic: Enrolled Agent - Change of Address

QUESTION 72

72. Robert filed his tax return for the year 2015 on time without any extensions, showing he owed $7,870 in taxes, which he hasn't paid yet nor has he made any arrangements to extend the statute limitations or compromise the amount. When does the statute of limitations for collecting Robert's tax liability expire?

A. April 15, 2024
B. April 15, 2025
C. December 31, 2025
D. April 15, 2026

ANSWER: D. April 15, 2026
The IRS generally has 10 years from the date of assessment to collect a tax liability. Robert filed his 2015 tax return on time. The due date for 2015 tax returns (without extensions) was April 15, 2016. The assessment would typically occur shortly after the due date (or the filing date, if filed before the due date).
Therefore, the 10-year collection statute of limitations would expire 10 years after April 15, 2016, which is April 15, 2026.
Topic: Statute of Limitations - Collection

QUESTION 79

79. In which scenario would a taxpayer not be eligible to request an audit reconsideration regarding a tax assessment from a prior year?

A. If they have new documentation that was not previously considered during the initial examination.
B. If they have already paid the full amount of the assessed tax.
C. If they did not participate in the examination nor provided any information to the IRS.
D. If they did not receive the examination notice due to having moved.

ANSWER: C. If they did not participate in the examination nor provided any information to the IRS.
A taxpayer is generally not eligible for audit reconsideration if they failed to participate in the original audit or provide requested information without good cause (Option C), as reconsideration isn't a substitute for the initial exam. Conversely, having new information (A), having paid the tax (B), or not receiving the original notice due to a move (D) typically do not disqualify a taxpayer from requesting reconsideration and often support it.
Topic: IRS Procedures (Audit Reconsideration)

QUESTION 86

ANSWER: C. Within 30 days of an Administrative Law Judge's decision, either party may appeal to the Secretary of the Treasury or their delegate
If either the Office of Professional Responsibility or the practitioner (respondent) wishes to appeal the decision made by the Administrative Law Judge, they must file the appeal within 30 days of the decision to the Secretary of the Treasury or their delegate.
Topic: Appeal from Administrative Decision

PART 3 - PRACTICE EXAM #2

QUESTION 2

2. Which statement about Continuing Professional Education (CPE) for enrolled agents is correct?

A. Enrolled Agents are not required to complete any Continuing Professional Education.
B. Enrolled Agents must complete at least two hours of ethics or professional conduct CPE each year.
C. Enrolled Agents can carry over excess CPE hours from one enrollment cycle to the next.
D. Enrolled Agents can only earn CPE credit from live, in-person seminars.

ANSWER: B. Enrolled Agents must complete at least two hours of ethics or professional conduct CPE each year.
Circular 230 requires Enrolled Agents to complete 72 hours of Continuing Professional Education (CPE) during each three-year enrollment cycle. Crucially, within those 72 hours, they must complete a minimum of 16 hours of CPE each year, and at least two of those 16 hours must be on ethics or professional conduct. The other options are incorrect: CPE is required (Option A is false); excess hours cannot be carried over (Option C is false); and CPE can be earned through various methods, not just live seminars (Option D is false).
Topic: Enrolled Agent - CPE Requirements

QUESTION 38

38. In 2025, what is the penalty for each failure to comply with the due diligence requirements for the Earned Income Tax Credit (EITC) claims prepared?

A. $150
B. $500
C. $600
D. $635

ANSWER: D. $635
For failing to meet the EITC due diligence requirements in 2024, the penalty is $635 per infraction.
Topic: Consequences of Filing EITC Returns Incorrectly

QUESTION 42

42. What penalty applies to a tax preparer for each return where the taxpayer's liability is understated due to an unreasonable position?

A. The greater of $250 or 25% of the preparer's income for preparing that specific return or claim.
B. The greater of $300 or 30% of the preparer's income for preparing that specific return or claim.
C. The greater of $1,000 or 50% of the preparer's income for preparing that specific return or claim.
D.The greater of $1,500 or 35% of the preparer's income for preparing that specific return or claim.

ANSWER: C. The greater of $1,000 or 50% of the preparer's income for preparing that specific return or claim.
A penalty of $1,000 or 50% of the income earned from the refund may be imposed if the underpayment of tax is due to an unreasonable position taken by the preparer.
Lesson: Understatement of Taxpayer's Liability

QUESTION 45

45. What is the penalty for a tax preparer who endorses or negotiates a client’s refund check in 2025?

A. $300
B. $500
C. $600
D. $635

ANSWER: D. $635
A $635 penalty is assessed against tax preparers who improperly endorse or negotiate a client's refund check.
Lesson: Negotiation of Taxpayer Checks

QUESTION 49

49. Which behavior is NOT considered disreputable conduct for an enrolled agent under current standards?

A. Using threats or bribes to influence IRS employees.
B. Failing to submit client funds intended for tax payments.
C. Assisting someone to practice before the IRS during their disbarment or suspension.
D. Attending qualifying Continuing Professional Education (CPE) courses as required.

ANSWER: D. Attending qualifying Continuing Professional Education (CPE) courses as required.
Circular 230 defines acts in options A, B, and C as disreputable conduct for practitioners. In contrast, attending required CPE (New Option D) is a professional duty essential for maintaining competence and ethical practice, not disreputable conduct.
Lesson: Sanctions for Violation of the Regulations

QUESTION 64

64. Which of the following statements about modifications to powers of attorney is incorrect?

A. A designated representative has the right to withdraw from representation for which they have filed a power of attorney.
B. A taxpayer has the ability to cancel a power of attorney without needing to designate a successor.
C. A Form 2848 Power of Attorney generally remains in effect for the specified matters until it is revoked by the taxpayer or the representative.
D. Upon appointing a new representative, both the new and former representatives will be deemed the taxpayer's representative.

ANSWER: D. Upon appointing a new representative, both the new and former representatives will be deemed the taxpayer's representative.
Statement A is correct: A designated representative has the right to withdraw from representation using established procedures. Statement B is correct: A taxpayer can revoke a prior Power of Attorney (POA) without needing to name a successor representative. Statement C (as modified to be true, e.g., stating a POA generally remains effective until revoked) is also correct. Statement D, however, is incorrect. Filing a new Form 2848 appointing a new representative for the same tax matters and periods generally automatically revokes any prior POAs granted for those same matters/periods, unless the taxpayer specifically takes action (like attaching the prior POA and checking a box on the new form) to keep the prior authorization(s) in effect. Therefore, stating that both representatives *will be deemed* active by default upon appointing a new one is incorrect.
Topic: Power of Attorney - Revocation and Substitution

QUESTION 89

89. Under what condition is a taxpayer not required to pay estimated tax for the current year?

A. The taxpayer had no tax liability the previous year
B. The taxpayer was a U.S. citizen or resident for the entire year
C. The taxpayer’s previous tax year covered a full 12 months
D. The taxpayer received a large refund in the previous year.

ANSWER: A. The taxpayer had no tax liability the previous year
Taxpayers are generally required to pay estimated tax if they anticipate owing $1,000 or more when they file their return for the current year. However, a key exception under IRC §6654(e)(2) states that no estimated tax payment is required (and no penalty will be imposed) if the taxpayer had no tax liability for their previous tax year (Option A), provided that the previous tax year covered a full 12 months (related to Option C) and the taxpayer was a U.S. citizen or resident for that entire year (related to Option B). If these specific prior-year conditions are met, the taxpayer is exempt from paying estimated tax for the current year. Option D, concerning the size of a refund received in the previous year, is irrelevant to determining whether estimated tax payments are required for the current year; the relevant factor is the prior year's tax liability, not the refund amount.
Topic: Estimated Tax (Exception for No Prior Year Tax Liability)

QUESTION 91

91. Which of the following is not considered disreputable conduct that could lead to censure, suspension, or disbarment from practice before the IRS?

A. Giving false or misleading information, knowingly and willfully, to the Department of the Treasury.
B. Being *convicted* of any criminal offense under the revenue laws of the United States.
C. Being *convicted* of any felony under Federal or State law that renders the practitioner unfit to practice before the IRS.
D. Maintaining a professional website that provides accurate contact information, lists areas of tax expertise, and includes biographical information.

ANSWER: D. Maintaining a professional website that provides accurate contact information, lists areas of tax expertise, and includes biographical information.
Circular 230 defines various actions that constitute disreputable conduct for which a practitioner can be censured, suspended, or disbarred from practice before the IRS. These include giving false or misleading information (Option A), being convicted of a tax crime (Option B), and being convicted of a felony that makes them unfit to practice (Option C). However, maintaining a professional website with accurate information about the practitioner's services, contact details, and background (Option D) is a normal and acceptable business practice. It is not, in itself, disreputable conduct.
Topic: Circular 230 - Disreputable Conduct